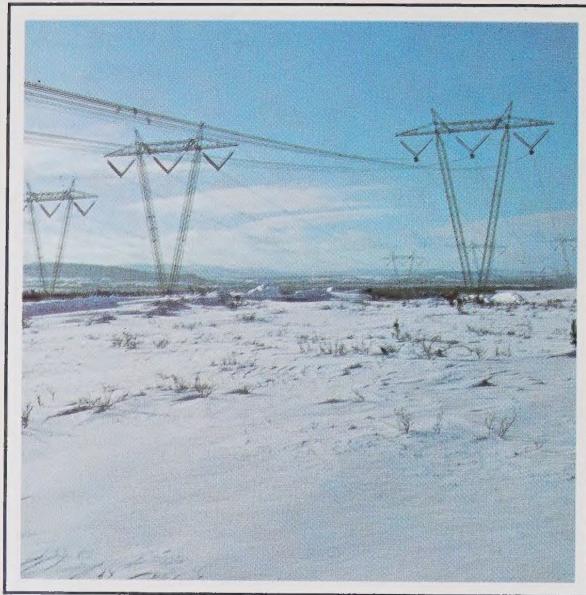


AR29



cf CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

Annual Report
1972



MAR 26 1973

Officers

Chairman and Chief Executive Officer:
WILLIAM D. MULHOLLAND

 President:
H. W. MACDONELL, Q.C.

 Executive Vice-President:
H. L. SNYDER, P.Eng.

 Vice-President, Operations:
JOHN W. BEAVER, P.Eng.

 Vice-President:
R. C. BERRY, C.A.

 Vice-President and Chief Financial Officer:
W. E. BRADFORD, C.G.A.

 Vice-President:
R. D. BOIVIN, P.Eng.

Vice-President and General Counsel:
N. M. PETERS

 Vice-President:
R. LEGGE

 Secretary:
M. CARLETON BURNES, C.A.

 Treasurer:
JAMES P. RIXON, C.A.

 Comptroller:
T.V. STEEPE

Directors

***HENRY BORDEN, S.M., C.M.G., Q.C.,**
 Toronto, Ontario
 Former Chairman,
 Brinco Limited

ROBERT A. BOYD, Eng.,
 Montreal, Quebec
 Commissioner,
 Quebec Hydro-Electric Commission

YVON De GUISE, Eng.,
 Montreal, Quebec
 Commissioner,
 Quebec Hydro-Electric Commission

*** SIR VAL DUNCAN, O.B.E.,**
 London, England
 Chairman and Chief Executive,
 The Rio Tinto-Zinc Corporation Limited

PETER J. GARDINER,
 St. John's, Newfoundland
 General Manager,
 Chester Dawe Ltd.

ROLAND GIROUX,
 Montreal, Quebec
 President,
 Quebec Hydro-Electric Commission

***SAM HARRIS,**
 New York, U.S.A.
 Senior Partner,
 Fried, Frank, Harris, Shriver & Jacobson

***H. W. MACDONELL, Q.C.,**
 Montreal, Quebec
 Executive Vice-President,
 Brinco Limited;
 President,
 Churchill Falls (Labrador) Corporation Limited

***ANDRE MONAST, Q.C.,**
 Quebec City, Quebec
 Senior Partner,
 St. Laurent, Monast, Desmeules & Walters

*** ROBERT D. MULHOLLAND,**
 Montreal, Quebec
 Chairman,
 Brinco Limited;
 Vice-Chairman of the Board,
 Bank of Montreal

***WILLIAM D. MULHOLLAND,**
 Montreal, Quebec
 President and Chief Executive Officer,
 Brinco Limited;
 Chairman and Chief Executive Officer,
 Churchill Falls (Labrador) Corporation Limited

EDMUND L. de ROTHSCHILD, T.D.,
 London, England
 Chairman,
 N. M. Rothschild & Sons Limited

H. L. SNYDER, P.Eng..
 Montreal, Quebec
 Vice-President,
 Brinco Limited;
 Executive Vice-President,
 Churchill Falls (Labrador) Corporation Limited;
 President,
 Twin Falls Power Corporation Limited

SIR MARK TURNER,
 London, England
 Deputy Chairman,
 The Rio Tinto-Zinc Corporation Limited

*Member of the Executive Committee

HEAD OFFICE
 Crosbie Place, St. John's, Newfoundland

EXECUTIVE OFFICE
 One Westmount Square, Montreal 216, Quebec

*On peut obtenir le texte français de ce rapport
 auprès du service des Relations publiques,
 Churchill Falls (Labrador) Corporation Limited,
 Un, Westmount Square, Montréal 216 (Québec).*



Above: Guests at the official inauguration ceremony at Churchill Falls on June 16, 1972, were welcomed by CFLCo Chairman and Chief Executive Officer W.D. Mulholland.

Left: Hon. Frank D. Moores, premier of the province of Newfoundland and Labrador, places a canister containing project documents in a boulder near the intake structure.



Report of Directors to Shareholders

The year 1972 was a pivotal one for the Churchill Falls development as it moved formally from a construction project to commercial operations.

The first and second turbine-generator units were placed in service in December, 1971, although firm deliveries of power to Hydro-Quebec were not required contractually until May 1, 1972. Commissioning the first two units nearly five months ahead of the contract date permitted a comfortable break-in period for the generation and transmission equipment, and for the men who operate it.

The third and fourth of 11 units, each of 475 megawatts, were commissioned last June and July respectively. Three more units will be commissioned during 1973, three in 1974 and the final one in 1975.

Churchill Falls (Labrador) Corporation Limited marked the completion of the initial power commitments with an inauguration ceremony at Churchill Falls.

The ceremony was held June 16 and attracted close to 1,000 guests including senior members of the federal, Newfoundland and Quebec governments, leaders in the business and financial communities and representatives of the news media.

Principal guests of honor were: Rt. Hon. Pierre Elliott Trudeau, prime

minister of Canada; Hon. Frank D. Moores, premier of the province of Newfoundland and Labrador; and Hon. Robert Bourassa, prime minister of the province of Quebec.

While all the principal guests acknowledged the planning, organization and the hard, heavy construction work that resulted in Churchill Falls being brought on stream within budget and on time, Mr. Trudeau also noted CFLCo's respect for the environment.

"A truly human shape has . . . been given to this source of raw energy without diminishing nature or disturbing the balance of the environment," Mr. Trudeau said. "The example of Churchill Falls shows that though man imposes his will on nature he can do so in harmony with nature, and this process can be noble and fruitful."

Although considerable attention was deservedly paid to the operating power plant in 1972, a significant amount of construction work remains.

Installation of turbine and generator units 5, 6 and 7 will be completed in 1973, as will all the electrical and mechanical work in the powerhouse and switchyard required for their operation.

The Gabbro water control structure was completed early in 1973 with the installation of permanent gate hoist housings. This structure permits water from Ossokmanuan Reservoir, which feeds the Twin Falls hydro-electric plant, also to be diverted into Smallwood

Reservoir, main storage area for the Churchill Falls plant.

During 1973 the third of three 735 kV transmission lines between Churchill Falls and the Hydro-Quebec system will be energized.

In the power facility, underground civil work will consist of concreting in unit bays 8, 9 and 10, and concrete embedment of the penstock steel liners for units 7, 8 and 9. Installation of penstock steel liner will be completed for unit 10, and will start for unit 11.

THE YEAR IN REVIEW

Construction

The second of three 735 kV transmission lines between Churchill Falls and the Hydro-Quebec system was completed and energized during 1972, as was a 230 kV interconnection between the Churchill Falls and the Twin Falls

(Continued on page 4)

plants. This interconnection permits electricity generated in the Churchill Falls plant to be transmitted to the iron ore mining centres of Wabush and Labrador City in western Labrador.

In the community of Churchill Falls, 45 permanent houses were virtually completed, adding to the 59 houses and 48 apartment units built in 1969. The multi-denominational community church was dedicated, and the indoor swimming pool opened in the Donald Gordon Centre, the name given during the year to the town centre complex in memory of CFLCo's late chairman.

Operations

During 1972 Churchill Falls operations moved smoothly through start-up to continual commercial power deliveries.

Training and upgrading programs were intensified to provide and maintain ample numbers of operators, electricians, linesmen and other highly-skilled operations personnel.

Considerable attention was paid to the preparation of equipment manuals, operating routines, emergency procedures, maintenance procedures and schedules. Valuable experience continues to be gained by having operations staff participate in the commissioning of new equipment.

(Continued on page 13)



At the inauguration approximately 1,000 guests (top) saw the ceremony at the 20-ton Labrador boulder (right).

Above: A younger spectator watched aircraft landing from a window in the Churchill Falls airport terminal.



Balance Sheet as at December 31, 1972
Assets

	1972	1971
Current assets:		
Cash and short-term deposits	\$ 11,870,000	\$ 16,519,000
Accounts receivable (including from affiliate \$154,000; 1971—\$164,000)	5,997,000	3,685,000
Dividend receivable from Twin Falls Power Corporation Limited	288,000	200,000
Supplies and prepaid expenses	1,501,000	757,000
Total current assets	19,656,000	21,161,000
Investment in shares of Twin Falls Power Corporation Limited (note 1)	2,672,000	2,696,000
Churchill Falls power project, at cost	716,242,000	602,477,000
Less accumulated depreciation (note 2)	8,608,000	6,560,000
	707,634,000	595,917,000
Trans-Labrador road, less \$584,000 (1971—nil) written off (note 2)	1,753,000	2,050,000
Unamortized debt discount and financing expenses (notes 3 and 9)	6,730,000	6,120,000
	\$738,445,000	\$627,944,000

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,682,000	\$ 28,109,000
Long-term debt (note 4)	625,823,000	514,422,000
Deferred income taxes	1,239,000	—
Shareholders' equity:		
Capital stock (note 5)	82,900,000	82,900,000
Retained earnings (note 6)	6,801,000	2,513,000
	89,701,000	85,413,000
	\$738,445,000	\$627,944,000

See accompanying notes.

On behalf of the Board:

Harry W. Macdonell, Director

Robert A. Boyd, Director



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

**Statement of Income and Retained Earnings
for the year ended December 31, 1972**

	1972	1971
Revenue:		
Sales of power (note 8)	\$ 13,999,000	\$ 92,000
Rental of rights and facilities to Twin Falls Power Corporation Limited	735,000	735,000
Total revenue	<u>14,734,000</u>	<u>827,000</u>
Expenses:		
Plant and corporate costs (note 9)	1,770,000	—
Horsepower royalty [note 7(c)]	483,000	14,000
Newfoundland rental [note 7(c)]	504,000	76,000
Interest and amortization of debt discount and financing expenses (notes 3 and 9)	4,494,000	—
Depreciation and amount written off Trans-Labrador road (note 2)	2,632,000	813,000
Total expenses	<u>9,883,000</u>	<u>903,000</u>
Operating profit [loss] for the year	<u>4,851,000</u>	<u>[76,000]</u>
Equity in net income of Twin Falls Power Corporation Limited for the year	676,000	594,000
Net income before income taxes	5,527,000	518,000
Deferred income taxes	<u>1,239,000</u>	<u>—</u>
Net income for the year	<u>4,288,000</u>	<u>518,000</u>
Retained earnings at beginning of year	<u>2,513,000</u>	<u>1,995,000</u>
Retained earnings at end of year	<u>\$ 6,801,000</u>	<u>\$ 2,513,000</u>

See accompanying notes.

**Statement of Source and Use of Funds
for the year ended December 31, 1972**

	1972	1971
Source of funds:		
From current operations:		
Net income [loss] before equity in net income of Twin Falls Power Corporation Limited	\$ 3,612,000	\$ [76,000]
Deferred income taxes	1,239,000	—
Depreciation and amount written off Trans-Labrador road	2,632,000	813,000
Amortization of debt discount and financing expenses	32,000	—
Dividends from Twin Falls Power Corporation Limited	<u>7,515,000</u>	<u>737,000</u>
Long-term debt:		
Bank loan	34,000,000	—
First Mortgage Bonds Series A	68,326,000	147,187,000
First Mortgage Bonds Series B	<u>9,075,000</u>	<u>10,025,000</u>
Use of Funds:		
Development of Churchill Falls power project	113,765,000	155,880,000
Trans-Labrador road	287,000	2,050,000
Debt discount and financing expenses	642,000	815,000
Decrease [increase] in working capital deficiency	<u>114,694,000</u>	<u>158,745,000</u>
Working capital deficiency at beginning of year	4,922,000	[221,000]
Working capital deficiency at end of year	<u>\$ 2,026,000</u>	<u>\$ 6,948,000</u>

See accompanying notes.

Notes to the Financial Statements for the year ended December 31, 1972
(1) Investment in Shares of Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") owns voting control (66 2/3%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent only a 33 1/3% interest in the equity of Twin Falls.

In view of the fact that the equity interest in Twin Falls is 33 1/3% and as the principal assets and the credit resources of Twin Falls cannot be transferred to Churchill Falls, consolidation of its accounts with those of Churchill Falls does not produce financial statements which are as meaningful and informative as the individual financial statements of the companies. The investment in Twin Falls is carried on an equity basis.

	1972	1971
Original cost	\$2,500,000	\$2,500,000
Equity in retained earnings at beginning of year	\$196,000	\$177,000
Equity in net income for the year	676,000	594,000
	872,000	771,000
Dividends for the year	700,000	172,000
	172,000	575,000
	\$2,672,000	196,000
		\$2,696,000

(2) Depreciation:

With the commencement of commercial delivery of power on May 1, 1972 under the terms of the power contract with Quebec Hydro-Electric Commission ("Power Contract"), Churchill Falls has adopted the policy of providing depreciation at a rate of 1 1/2% per annum on a straight-line basis on the capital cost of the Churchill Falls Power Project ("Project"). This rate is applied in the proportion of the number of units generating power under the terms

of the Power Contract to the 10 units which will be so generating upon completion of the Project. During the period from January 1 to April 30, 1972, Churchill Falls provided depreciation on a basis consistent with that of prior years.

The cost of the Trans-Labrador road is being written off over four years, commencing in 1972.

(3) Unamortized Debt Discount and Financing Expenses:

Certain expenditures amounting to \$795,000, which had been included in the cost of the Project in previous years, were reallocated to financing expenses in 1972. The 1971 comparative figures have been adjusted accordingly.

expenses are being amortized over the term of the First Mortgage Bonds. The charge to operations is in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project.

With effect from May 1, 1972, debt discount and financing

(4) Long-Term Debt:

	Authorized	Issued and Outstanding		
		1972	1971	
First Mortgage Bonds:				
7 3/4% Series A due December 15, 2007	\$500,000,000 (US \$)	\$440,300,000 (US \$)	\$453,598,000	\$371,300,000 (US \$)
7 7/8% Series B due December 15, 2007	\$ 50,000,000		38,225,000	29,150,000
Bank Loan	\$150,000,000		34,000,000	—
General Mortgage Bonds:				
7 1/2% due three years after latest maturity of any First Mortgage Bonds	\$100,000,000		100,000,000	100,000,000
			\$625,823,000	\$514,422,000

First Mortgage Bonds

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian dollars.

Pursuant to the Bond Purchase Agreements, the authorized but unissued First Mortgage Bonds at December 31, 1972 are scheduled to be issued in 1973.

The First Mortgage Bonds are repayable in semi-annual fixed and contingent sinking fund instalments commencing June, 1978.

Bank Loan

Under the terms of an agreement with a consortium of Canadian banks, Churchill Falls is provided with a credit not exceeding \$150,000,000 at any time outstanding. The agreement provides for the issue of revolving 90-day notes. At December 31, 1972, the rate of interest payable on the outstanding bank loan was 6 1/2%,

1/2 of 1% over the prime rate charged by Canadian banks prevailing at the date of issue of each note. On December 31, 1975, or such earlier date as shall be designated by Churchill Falls, the amount of the then outstanding notes is convertible into a term loan repayable in equal semi-annual instalments to December 31, 1978.

The bank loan is subordinate to the First Mortgage Bonds.

General Mortgage Bonds

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments commencing in June of the fourth year following the completion of the Project. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1 preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds and the bank loan.

(5) **Capital Stock:**

Common shares without nominal or par value authorized and issued as at December 31, 1971 and 1972, were:

	Shares	Amount
Authorized	10,000,000	
Issued and fully paid	8,759,999	\$82,900,000

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding common shares.

(6) **Dividend Restrictions:**

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion

of the Project and place restrictions on the payment of cash dividends thereafter.

(7) **Commitments and Contingent Liabilities:**

(a) At December 31, 1972, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$39,000,000. This includes an amount based on an evaluation of outstanding claims.

(b) At December 31, 1972, Churchill Falls was defending two legal actions arising out of claims submitted by certain contractors. In the opinion of Churchill Falls management, such litigation will not result in significant financial liability.

(c) Under the terms of The Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).

(d) Churchill Falls has a sublease with Twin Falls giving that company the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Under the terms of the sublease, Churchill Falls has given notice to Twin Falls that a suspension of certain of its rights under the sublease will become effective on a date not earlier than June 30, 1973, nor later than June 30, 1974, with the effect that Churchill Falls will have the right to divert the flow of water from the Twin Falls plant and to use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be required to deliver to Twin Falls, at an agreed price, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. In addition, Churchill Falls will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

(8) **Sales of Power:**

Quebec Hydro-Electric Commission and Churchill Falls have entered into a Power Contract dated May 12, 1969, providing for the purchase of substantially all the power from the Project for an initial period of approximately 40 years with a renewal for a further period of 25 years.

During the period from May 1, 1972 to November 30, 1972 there were two units generating power under the terms of the Power Contract and three such units during December. During this period, the Company derived approximately \$400,000 from the delivery of excess power made possible by the use of units not required to meet contract commitments.

(9) **Cost Allocations:**

Plant and corporate costs and net interest expense are charged to operations in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. The balance of these costs is included in the capital cost of the Project.

An analysis of interest and amortization of debt discount and financing expenses is as follows:

	1972	1971
Gross interest	<u>\$42,538,000</u>	<u>\$34,227,000</u>
Less: Interest income	773,000	2,069,000
Hydro-Quebec payments (see below)	<u>11,480,000</u>	<u>9,300,000</u>
	<u>12,253,000</u>	<u>11,369,000</u>
Net interest expense	30,285,000	22,858,000
Allocated to capital	<u>25,823,000</u>	<u>22,858,000</u>
Charged to operations	4,462,000	—
Amortization of debt discount and financing expenses (see note 3)	32,000	—
	<u>\$ 4,494,000</u>	<u>\$ —</u>

Under the terms of the Power Contract, Quebec Hydro-Electric Commission is obliged to pay to Churchill Falls a portion of the interest charges on the long-term debt of Churchill Falls.

(10) **Directors' and Officers' Remuneration:**

	Number	Aggregate Remuneration
Directors 1972	15	\$ 20,000
1971	14	19,000
Officers 1972	13 (4 of whom were directors)	217,000
1971	12 (3 of whom were directors)	163,000

In 1971 and 1972, five of the officers did not receive any remuneration as officers from Churchill Falls.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1972, and the statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1972, and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in method of providing for depreciation, occasioned by the commencement of commercial delivery of power, as described in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

TWIN FALLS POWER CORPORATION LIMITED

Balance Sheet as at December 31, 1972

Assets

	1972	1971
Current assets:		
Cash and short-term deposits	\$ 14,123,000	\$ 7,962,000
Accounts receivable	567,000	623,000
Income taxes receivable	—	4,301,000
Supplies and prepaid expenses	76,000	80,000
Total current assets	14,766,000	12,966,000
Funds held by trustee	1,000	—
Plant and equipment, at cost	59,855,000	59,922,000
Less accumulated depreciation	15,877,000	14,130,000
Construction in progress (note 1)	43,978,000	45,792,000
	4,112,000	543,000
	\$ 62,857,000	\$ 59,301,000

Liabilities and Shareholders' Equity

Current liabilities:

Bank loan (note 1)	\$ 3,500,000	\$ 500,000
Accounts payable and accrued liabilities (including to affiliates \$75,000; 1971 — \$128,000)	900,000	408,000
Dividends payable	862,000	600,000
First Mortgage Bonds due within one year (note 2)	1,890,000	1,787,000
Total current liabilities	7,152,000	3,295,000
 First Mortgage Bonds (note 2):		
5½% Series A due June 30, 1986	29,962,000	31,593,000
6¼% Series B due June 30, 1989	6,909,000	7,168,000
	36,871,000	38,761,000
Deferred income taxes	10,818,000	9,158,000

Shareholders' equity:

Capital stock (note 3):		
Authorized: 500,000 Class A shares of the par value of \$10 each		
1,000,000 Class B shares of the par value of \$10 each		
Issued: 250,000 Class A shares fully paid	2,500,000	2,500,000
500,000 Class B shares fully paid	5,000,000	5,000,000
Retained earnings (note 2)	516,000	587,000
	8,016,000	8,087,000
	\$ 62,857,000	\$ 59,301,000

See accompanying notes

On behalf of the Board:

Harold L. Snyder, Director

W. J. Bennett, Director

TWIN FALLS POWER CORPORATION LIMITED

Statement of Income and Retained Earnings for the year ended December 31, 1972

	1972	1971
Sales of power	<u>\$ 8,656,000</u>	<u>\$ 8,749,000</u>
Cost of power (note 4)	<u>1,729,000</u>	<u>1,710,000</u>
Interest (note 2)	<u>2,261,000</u>	<u>2,357,000</u>
Depreciation	<u>1,814,000</u>	<u>1,812,000</u>
	<u>5,804,000</u>	<u>5,879,000</u>
Income before the following items	<u>2,852,000</u>	<u>2,870,000</u>
Interest income	<u>837,000</u>	<u>693,000</u>
	<u>3,689,000</u>	<u>3,563,000</u>
Deferred income taxes	<u>1,660,000</u>	<u>1,780,000</u>
Net income for the year	<u>2,029,000</u>	<u>1,783,000</u>
Retained earnings at beginning of year	<u>587,000</u>	<u>529,000</u>
	<u>2,616,000</u>	<u>2,312,000</u>
Dividends	<u>2,100,000</u>	<u>1,725,000</u>
Retained earnings at end of year	<u>\$ 516,000</u>	<u>\$ 587,000</u>

See accompanying notes.

Statement of Source and Use of Funds for the year ended December 31, 1972

	1972	1971
Source of funds:		
From current operations:		
Net income	<u>\$ 2,029,000</u>	<u>\$ 1,783,000</u>
Depreciation	<u>1,814,000</u>	<u>1,812,000</u>
Deferred income taxes	<u>1,660,000</u>	<u>1,780,000</u>
	<u>5,503,000</u>	<u>5,375,000</u>
Increase in deferred income taxes	<u>—</u>	<u>3,557,000</u>
	<u>5,503,000</u>	<u>8,932,000</u>
Use of funds:		
Increase in funds held by trustee	<u>1,000</u>	<u>—</u>
Plant and equipment	<u>—</u>	<u>7,000</u>
Construction in progress	<u>3,569,000</u>	<u>543,000</u>
Reduction of long-term debt	<u>1,890,000</u>	<u>1,787,000</u>
Dividends	<u>2,100,000</u>	<u>1,725,000</u>
	<u>7,560,000</u>	<u>4,062,000</u>
Increase (decrease) in working capital	<u>(2,057,000)</u>	<u>4,870,000</u>
Working capital at beginning of year	<u>9,671,000</u>	<u>4,801,000</u>
Working capital at end of year	<u>\$ 7,614,000</u>	<u>\$ 9,671,000</u>

See accompanying notes.

TWIN FALLS POWER CORPORATION LIMITED

Notes to the Financial Statements for the year ended December 31, 1972

(1) Construction in Progress:

Twin Falls Power Corporation Limited ("Twin Falls") is installing, at the request of a power customer, additional terminal station capacity at an estimated cost of \$4.5 million of which \$4.1 million has

been expended to date. This construction is being financed by a bank loan repayable on or before March 31, 1973, pending final financial arrangements with the customer. All interest charges relating to the bank loan are being charged to the cost of this facility.

(2) First Mortgage Bonds:

The following amounts of 5½ % First Mortgage Bonds Series A due June 30, 1986, and 6¼ % First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls pursuant to the terms of the Deed of Trust and Mortgage ("Trust Deed"), as amended.

	1972		1971	
	Series A (US \$)	Series B (US \$)	Series A (US \$)	Series B (US \$)
Authorized	\$42,500,000	\$10,000,000	\$42,500,000	\$10,000,000
Issued	39,500,000	8,000,000	39,500,000	8,000,000
Retired	9,830,000	1,352,000	8,380,000	1,127,000
Outstanding December 31	29,670,000	6,648,000	31,120,000	6,873,000
Due within one year	1,532,000	240,000	1,450,000	225,000
Long-term debt	\$28,138,000	\$ 6,408,000	\$29,670,000	\$ 6,648,000

The outstanding Bonds are carried in the accounts at the related proceeds realized in Canadian dollars. The funds required to service this debt are made available in U.S. dollars under long-term power contracts without loss or gain on exchange to Twin Falls.

Estimated repayments, in U.S. dollars, of long-term debt over the next five years are:

1973	\$1,772,000
1974	1,871,000
1975	1,978,000
1976	2,091,000
1977	2,208,000

The Bonds are repayable in equal semi-annual instalments of principal and interest. The Bonds are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed by the Trust Deed on the payment of dividends other than stock dividends.

(3) Capital Stock:

The issued share capital of Twin Falls consists of 250,000 Class A shares each of \$10 par value owned by Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") and 500,000 Class B shares of

\$10 par value, owned by the present long-term customers of Twin Falls. The Class A shares are entitled to four votes per share and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

(4) Commitments:

- (a) Rentals payable annually to Churchill Falls amount to \$305,000 and \$1.40 per installed horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined).
- (b) Twin Falls has a sublease from Churchill Falls giving Twin Falls the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Twin Falls has received from Churchill Falls notice that a suspension of certain rights will become effective on a date ("Suspension Date") not earlier than June 30, 1973, nor later than June 30, 1974, with the effect that Churchill Falls may divert the flow of water from the Twin Falls plant and use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be

required to deliver to Twin Falls, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. Twin Falls will be obliged to purchase this power at a price related to the average annual cost of operating the Twin Falls plant in the five-year period preceding the Suspension Date. In addition, the price will include the payment of the rentals and royalty as outlined in note 4(a), the royalty being calculated as though the power delivered by Churchill Falls to Twin Falls had been generated in the Twin Falls plant. Churchill Falls will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

Under the terms of an agreement in effect from January 1, 1972, Twin Falls is required to pay to Churchill Falls \$765,000 per annum for which Churchill Falls provides substantially all plant operating and normal maintenance services. This agreement will terminate on the Suspension Date.

(5) Directors and Officers:

Twin Falls has nine directors and eight officers including three who are directors and officers. In 1971 and 1972, no remuneration was paid by Twin Falls to the directors and officers.

TWIN FALLS POWER CORPORATION LIMITED

Auditors' Report to the Shareholders

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1972 and the statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1972, and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Montreal, Que.
February 5, 1973



Continuing vigilance is maintained in the project area to gauge possible ecological changes which might result from raising reservoir water levels. Top: Outfitted with scientific equipment, the 40-foot Pennywell works Smallwood Reservoir. Above: Biologist Donald Fleming (left) and Pennywell skipper Dexter Wiseman set a net to catch representative samples of the reservoir's fish species. Left: Wiseman and Fleming prepare fish for inspection of stomach contents.

Power production and transmission equipment performed well, and only minor deficiencies of a nature normally associated with new equipment were encountered. Filling of Smallwood Reservoir continued and the water is expected to reach full operating level by late 1973.

As the emphasis at Churchill Falls moves increasingly from construction to operations, more aspects of maintaining and running the facilities of the permanent community devolve upon operations personnel. In the past year, in particular, this changing emphasis prompted the re-organization of many site support facilities.

During 1972 the Twin Falls operations staff and their families were moved to Churchill Falls, as were a number of their housing units. Basing the Twin Falls operations personnel in Churchill Falls permits their integration into a larger community providing services and amenities helpful for maintaining a high quality of life.

Financial

Commercial deliveries of power to Hydro-Quebec under the Power Contract began on May 1, 1972, producing sales revenue of \$14 million by year end. Net income for 1972 amounted to \$4,288,000 compared with \$518,000 in 1971. Net income includes Churchill Falls' one-third interest in the net income of Twin Falls Power Corporation Limited, or \$676,000, in comparison with \$594,000 in 1971.

(Continued on page 15)





The project was 90 per cent complete at December 31, 1972, with direct construction expenditures totalling \$584 million, of which \$74 million was expended in 1972 primarily on control structures, powerhouse and switchyard facilities and transmission lines. An additional \$39 million was spent in 1972 for interest on long-term debt and other corporate costs, bringing the total project capital costs to \$716 million at year-end.

The financing of the 1972 project expenditures continued as planned with \$7 million in funds being provided from operations and \$34 million in loans from the banking consortium. Further drawdowns of Series A and Series B First Mortgage Bonds provided an additional \$68 million and \$9 million respectively. Two remaining drawdowns under the First Mortgage Bond Purchase Agreement amounting to \$71 million are scheduled for May and November, 1973.

Corporate Organization

During the year Harry W. Macdonell was appointed president of CFLCo succeeding William D. Mulholland who became chairman in place of Sir Val Duncan.

Peter J. Gardiner of St. John's was elected a director of the Company.

Other changes in Company officers and senior personnel were: the appointments of Norbert M. Peters as vice-president and general counsel; John W. Beaver as vice-

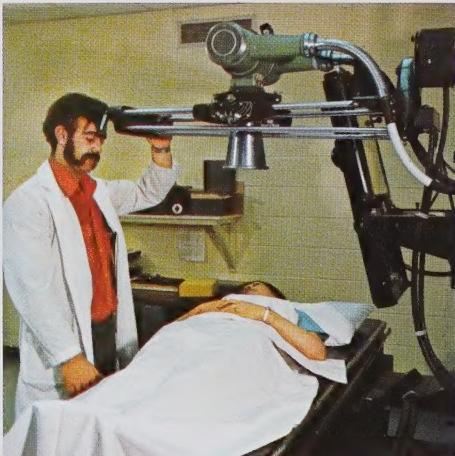
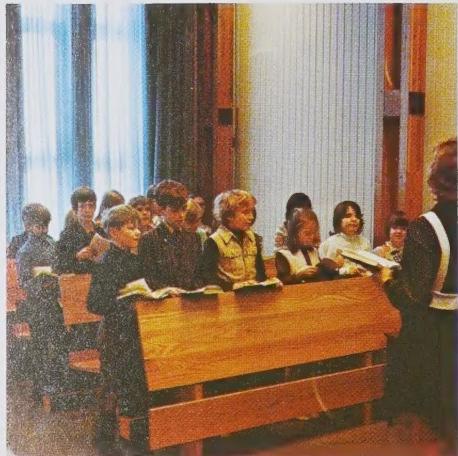
(Continued on page 16)



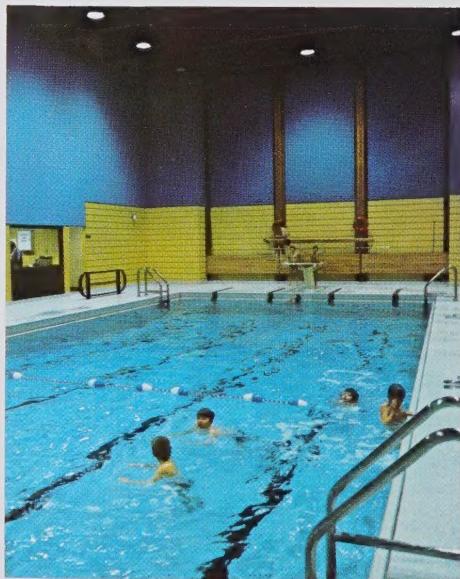
Top: A unit control board in the underground powerhouse.
 Middle left: The Gabbro structure which controls the flow of water between Ossokmanuan Reservoir and Smallwood Reservoir. Gabbro Lake, part of the Ossokmanuan Reservoir, is in the background.
 Middle right: The switchyard, with the forebay in the background.
 Left: A closer look at some of the towers and equipment in the switchyard.

Opposite page: Underground powerhouse with the four operating units in foreground.





Top: The language laboratory in Churchill Falls' Eric G. Lambert School.
Middle left: A children's choir in the community's multi-denominational church which opened last fall.
Middle right: X-rays are taken in the hospital which has 12 permanent beds and 12 temporary beds.
Right: Swimming pool, completed last year, in the Donald Gordon Centre, the community complex housing school, inn, shopping and recreational facilities.



president, operations; M. Carleton Burnes as secretary; James P. Rixon as treasurer; W. E. Bradford as chief financial officer; and T.V. Steepe as comptroller.

In addition, Roy Legge, vice-president and general manager—Head Office (St. John's), was elected a director of Twin Falls Power Corporation Limited.

On behalf of the Board we would like again to pay tribute to the continuing contributions of our employees, and those of associated companies, towards the success of the Churchill Falls development.

WD Mulholland

William D. Mulholland
Chairman and Chief Executive Officer

H.W. Macdonell

Harry W. Macdonell
President

Montreal, Quebec,
February 28, 1973

Opposite page: Churchill Falls, with the community centre in the lower foreground and permanent houses above and below it. To the left are four 12-unit apartment buildings. In the background is the forebay part of the reservoir.



LITHO CANADA

ONE OF THE  COMPANIES